Coöperative Credit Institutions in the United States

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WEALTH begins with thrift and increases as saving is practiced. In the whole organic kingdom man is the only being which stores up the fruits of labor for future use. Thrift, or saving, is at the foundation of civilization. Yea, more, it is the framework of property and the source of economic and social relations. To encourage thrift, therefore, is to promote social progress by increasing the supply of stored-up wealth for use in our democratic system of national economy.

Production of Wealth

In striving to produce wealth man may either work alone or in coöperation with others. The long experience of the race, however, has demonstrated that more wealth is produced by division of labor in group production than by an equal number of individuals working separately. But it took a long time for mankind to learn this truth.

Competition—Monopoly

During much of our past history, the organization of modern business has rested on competition. What the struggle for existence is to the natural world, the law of competition is to the economic world. To eliminate competition in any particular industry is to create monopoly, a most dangerous power, the economics of which are not established on the law of supply and demand, but on the arbitrary will of the directors of the monopolistic industry. Against this phase of social economy, the whole civilized world is now in open revolt, for to it is attributed in no small degree the great problem of the high and rising cost of living which strikes at the very foundations of national welfare and the health and happiness of the people.

Coöperation Through Division of Labor

But between competition and monopoly stands coöperation. The basis on which it rests is that of "mutual help for self-help." Its purpose is not to destroy, but to build up by combining the savings of many into a collective force for service. Fundamentally, therefore, coöperation rests on the economic basis of division of labor which increases wealth production. Its origin in modern history is very simple, beginning, it is said, in the custom of the Swiss peasantry of borrowing milk from one another to secure a sufficient quantity to make a cheese. This led to the pooling of the milk at a common center, the alternate manufacture of the cheese by the different peasants, and the final division of the products according to the quantity of milk furnished by each member of the coöperating group. The mutual help thus rendered was found not only to save the waste of individual small supplies of milk which taken alone would not be sufficient for the making of cheese, but to bring greater returns at less loss and less labor than an individual could expect or secure if producing milk and making cheese alone.

Society as constituted today is divided into "rural" and "urban" population. The rural workers are engaged in the production of wealth from the soil to provide food and the raw materials of many textile manufactures. On the other hand the workers in towns and cities, grouped as "urban," are largely engaged in industrial pursuits which work up the raw materials produced on the farms into finished products. Here, then, we have the mutual relations of both groups of our population clearly indicated showing the interdependence of one class of the people on another class which results in benefits to both. Taken in its broadest aspects, civilization is progressive coöperation in the production and distribution of those things which make for the health, the wealth, and the happiness of all the people.

THRIFT THROUGH COÖPERATIVE CREDIT INSTITUTIONS

The four primary needs of mankind are food, fuel, clothing and shelter. The masses of humanity born into the world must earn these things by their own labor. With growth in population and civilization, a house, which provides shelter, becomes costly and the average worker would be unable to occupy a home which he could call his own if some method of coöperation did not exist which enables him to buy a place and pay for it out of his savings. Such a system, however, has been devised and is called "coöperative credit."

The institutions primarily supplying this form of credit are known as Building and Loan Associations. These are mentioned first because they have been in existence longer than those institutions which provide credit facilities for rural workers. In either case the need of credit and credit institutions is based on the same fundamental principle, namely, the mutual aid furnished through coöperative effort as a means of self-help to every individual member of the organization.

In view of the financial and economic problems now confronting our country, probably no theme is more timely than that of pointing out how coöperative credit institutions encourage thrift among all classes of people in the United States.

Building and Loan Associations[1]

In some respects the building and loan associations are the greatest coöperative financial system in the world. They began in 1831, and from that time to the present they have had a steady growth through private enterprise and mutual self-help. As generally understood a building and loan association is an incorporated institution with a capital which may be increased or decreased by the issue or cancellation of shares, or by payment or withdrawal of payment on shares. The original source of this capital is the savings of members, and the purpose is to make loans to members for building or acquiring homes. The owning of homes being an encouragement to thrift, building and loan associations are exempt from taxation on the ground that their purpose is considered a benevolent one and that it promotes the welfare of communities in which they are located.

[1] For more detailed accounts see Senate Doc. 396, 64th Cong., 1st Sess., pp. 24–32; Secretary's Annual Report, United States League of Local Building and Loan Associations (Cincinnati) for 1918.

In accordance with coöperative principles, these associations are administered by their members at a mere nominal cost. They have a limited territory, the membership is not large, and the subscribers to shares are mostly people of only moderate means. In carrying out the principles of building and loan associations the aim is to encourage coöperation in local community life. For this reason each association should be self-sustaining and with a membership only large enough for all to attend meetings regularly and watch over its affairs.

Funds are provided by accepting the savings of members and investors. Each association issues and sells shares which are mainly of two kinds —installment shares and investment shares.

On *installment* shares the subscriber makes his payments at stated intervals. These are the ones in general use for loan transactions. A borrower subscribes for shares in an amount equal to his loan, a first mortgage is given on the property on which the loan is made, and the shares are pledged to the association as additional security for the loan. Payments made by members are applied on a share until paid off, and each share is credited with its portion of the profits. Borrowers in reality, therefore, receive interest to a limited extent on their own debts, a result attributed entirely to the principle of coöperative credit. At maturity a borrower's shares are canceled,—that is, when his payments equal his debts; and his mortgage is canceled with his pledged shares. The latter can at no time be withdrawn during the period of the loan.

The installment share was originally the only kind issued and created an obligation to keep up regular payments until maturity. In effect, therefore, it requires self-imposed compulsory thrift or saving which inculcates the habits of frugality and economy on the part of borrowers. In this day of extravagance, waste and high living, the habits inculcated through building and loan associations are worthy of being given broad publicity in the interests of our national welfare.

On *investment* shares the subscriber may make one payment in full or he may make several partial payments at stated periods to suit his convenience, and he may subscribe for as few or as many shares as he pleases. At maturity the shares are canceled, and in the case of a non-borrowing member the face value of his shares is paid to him in cash. Pledged shares by borrowers cannot be withdrawn until the loan has been paid, but the credits on investment or "free" shares may be withdrawn ordinarily on sixty days' notice.

Since the only credit instruments of a pure form of building and loan association are its shares, loans can only be made as fast as savings accumulate. This difficulty is inherent in the coöperative method of providing credit, but it is well understood by the members who realize that it cannot be changed without destroying the coöperative feature. As a matter of fact very serious consequences have more than once followed when building and loan associations deviated from the straight and narrow path of coöperative credit. The most dangerous departure from these principles was the right accorded in some states to use the credit as well as the cash of members for

the issue of bonds or other debt obligations. In the last quarter of the nineteenth century there were many failures of these associations due largely to the fact that the laws did not always require adequate supervision, that large associations were formed by persons who had no correct knowledge of the limitations of coöperation, and that the average officials were unfamiliar with intricate financial methods.

Evidently, then, a building and loan association when it conforms to its original concept, is distinctively a thrift society, whether considered from the standpoint of the borrower or the investor. The compulsory periodical saving which it requires of members gives it the character of a thrift institution to a greater extent than is possessed by a mutual savings bank or similar institution, and the safeguards thrown around the investment of its funds make it one of the sanest and safest institutions for home building by persons of moderate income. Its methods are strictly coöperative, the only creditors are its own members, and it is managed and financed exclusively by them.

That building and loan associations have encouraged thrift, both before and during the World War, may be shown by the following figures: There were in the United States in 1914 no less than 6,429 associations having a membership of 2,836,433 and a share capital of $1,248,479,139. This means that there was one member for every 13.45 persons engaged in gainful occupations, for every 7.14 census families, or for every 2.55 urban dwellings. Financially considered, it means, $1.00 of assets for every $13.91 of individual deposits in all banks in the United States. That the World War did not diminish thrift but rather encouraged it may be shown by the following figures for December 31, 1918, as compared with those for 1914: Number of associations 7,484; membership 4,011,401; and assets aggregating $1,898,344,346. Well may it be said of this kind of coöperative credit institution: "By their fruits ye shall know them."

A Proposed Federal Home Building Plan.[2]

The well-recognized merits of building and loan associations have led to a proposal to establish a federal system. On July 15, 1919, Senator W. M. Calder, of New York, introduced "a bill among the objects of which are to encourage home ownership and to stimulate the buying and building of homes"; and "to create a standard form of investment based on building-association mortgages."

This bill was referred to the Senate Committee on Banking and Currency, but no report had been made thereon up to October 20. I shall content myself, therefore, with presenting the merest outline of this proposed plan for encouraging home building, because of the changes which are likely to occur when a measure of this kind passes through the troubled waters of legislative criticism.

In its general outlines this bill follows closely the provisions of the Federal Farm Loan Act, the coöperative feature of which is described later in this paper. It provides for dividing the continental United States into eleven federal building loan bank districts and the establishment of a bank in each district which shall make loans to "building associations"

[2] Senate Bill 2492, 66th Cong., 1st Session.

for the purpose of encouraging home building by wage-earners and others. The term "building association," however, is defined broadly to include "all duly incorporated domestic building and loan associations, savings and loan associations, coöperative banks, homestead aid, or other kindred incorporated associations organized and conducted exclusively for the mutual benefit of their members and doing what is generally known as a coöperative building and loan association business," and which are under state supervision.

The establishment of a federal building loan bank is provided for in the following manner: Whenever ten or more building associations located within a district, with aggregate assets of not less than $5,000,000, shall associate themselves together for the purpose for which they are organized, they may establish a federal building loan bank in their district with a paid-in capital of not less than $100,000 in shares of $1,000 each. This capital may be loaned to building associations on first mortgages on dwelling houses, no other security being acceptable, said mortgages being deposited with a registrar as security for an issue of bonds in equal amount.

Bonds may be issued up to twenty times the capital of a federal building loan bank and funds may be advanced to any member association up to twenty times the amount of the capital stock owned by such member. The rate of interest on bonds, which are tax-exempt, cannot exceed $4\frac{1}{2}$ per cent, and the compensation to the bank for services may not exceed $\frac{1}{2}$ per cent. The interest rate on funds advanced to the associations, therefore, cannot exceed 5 per cent. After paying expenses and providing for a reserve account, the banks may declare dividends to shareholders of the whole or part of its net earnings and carried as undivided profits.

Here, then, we have a plan for the coöperation of coöperatives in which building and loan associations within a given district may pool their credit for mutual benefit. The scheme is largely patterned after the Land Bank of the state of New York, which, however, has made little or no progress since 1914. Many objections have been raised against the New York plan of financing the savings and loan associations of that state; and whether or not these difficulties could be overcome if a similar institution were established under federal fostering and supervision is problematical. Inasmuch as the federal plan for establishing coöperative credit institutions is in an embryonic condition, the problems connected therewith may be left for solution should that time ever come.

Credit Unions—Urban and Rural

Turning from the strictly urban aspect of coöperative credit, as represented by building and loan associations, let us now consider types of institutions which, beginning as urban, have become semi-rural or strictly rural in character. These institutions are called "people's banks" in Canada and "credit unions" in the United States.[3]

While the *people's banks* were originally organized in Canada to lend small sums to members on personal

[3] For a more detailed account of these coöperative credit institutions, see Morman's *The Principles of Rural Credits*, pp. 263–275.

security in the towns and cities of Quebec, the percentage of their membership is now so overwhelmingly composed of farmers,—90 per cent being farmers and 10 per cent wage-earners,—that the name could well be changed to "rural banks." In passing over into the United States, the modification brought about in their character led to the adoption of the name of *credit unions*, the aim of which was to make short-time loans to members on chattels. That both types of credit institution were intended to promote thrift may be shown by a brief account of their origin and development.

The people's banks in Canada owe their origin and success to the untiring energy of Alphonse Desjardins. The first bank was established at Levis, Quebec, beginning operations in January, 1901. From Quebec these banks spread to Ontario and have even made their way into some of the New England states.

The capital of each bank is raised by selling shares at $5 each and by receiving deposits, on which savings-bank interest rates are paid. Stockholders are free from liability—a departure from the European system. Deposits can be withdrawn at will, or by giving thirty days' notice at the utmost. Shares of stock may be paid for by small installments. Every applicant for membership has to be approved by a council of administration, the by-laws requiring that the applicant must be honest, punctual in his payments, sober, of good habits, and industrious. Each bank is carried on by three committees. The council of administration controls the admission to membership, supervises the transfer or withdrawal of stock, selects the manager who alone draws a salary, and overlooks the management of the business. The credit committee determines the amount of credit each member can receive and passes on all applications for loans. The council of supervision audits the accounts and has general supervision over the bank. A reserve fund is built up by means of 20 per cent of each year's profits and a membership fee of 10 cents; and the reserve fund is protected by a providence fund, raised by taking 10 per cent of the annual profits, which is designed to meet any calls that threaten the bank's stability. Loans usually run between $10 and $150, although larger loans are sometimes made, the rate of interest being about 6 per cent. These institutions do business within a limited area where everyone is known to all the shareholders, and where every shareholder is interested in the repayment of loans.

These are the general principles which regulate the activities of the coöperative personal credit institutions in Canada and the United States. They have been eminently successful in the Dominion where more than 150 have been organized since 1906 with more than 66,000 members; and, notwithstanding they are small institutions making small loans, the business transacted amounts to nearly $9,000,000 a year. As a means of encouraging thrift among small farmers and poorer-paid classes of wage-earners, the Desjardins' type of semi-rural coöperative bank, in which farmer and wage-earner can unite their savings to lend to others of their own class, affords a good opportunity for supplying cheap money for short-time loans on personal or

chattel security. But their success has undoubtedly been due to the real coöperative spirit existing among the members.[4]

Turning from Canada to the United States we find that credit unions have been organized as separate institutions in both city and country. In the states of Massachusetts and New York a considerable number have been organized in various cities among the working-classes, Massachusetts alone reporting 50 urban credit unions in 1916.

Rural Credit Unions.—During the past few years, however, more attention has been given to organizing credit unions among farmers, these rural credit unions now serving as supplemental institutions to the federal farm loan system which provides farm mortgage loans only, the coöperative feature of which is outlined and discussed in the following section. The original plan of rural credits legislation in the United States included both short-time (personal) and long-time (mortgage) credit, but no legislation on personal rural credit has ever been seriously considered in Congress. To a very limited extent, therefore, the organization of credit unions among farmers has occupied this neglected field of personal or short-time credit. The following are the principal data on rural credit unions as reported in 1916:

State	Number of unions	Members	Outstanding loans
Massachusetts...	1	44	$1,685.00
Connecticut.....	5	127	7,865.25
New York......	8	261	10,700.45
New Jersey.....	5	132	6,984.80
North Carolina..	9	322	4,031.20
			$31,266.70

The security given by members for loans in rural credit unions is either chattel mortgage or endorsement, and the prevailing rate of interest is 6 per cent. In the latter case a farmer in order to borrow money must know two or three neighbors who are willing to sign a note with him. But both the borrower and his indorsers must be known to the credit committee of the union or a loan will not be granted. Through living close together they learn the habits of thrift, industry and honesty of borrower and indorsers.

The greatest number of rural credit unions have been organized in North Carolina, the State Department of Agriculture supervising the work. The credit unions among farmers in the other states mentioned above have all been organized with the aid of the Jewish Agricultural and Industrial Aid Society.

The effect of the war on the development of rural credit unions has not resulted in increasing their number except in North Carolina, where the state has taken an active interest in the organization and success of these institutions. This is not to be interpreted, however, to mean that the war has been detrimental to the encouragement of thrift among farmers. It is more than likely that the increased prosperity during the past three years has enabled those farmers

[4] In a letter to the writer under date of October 11, 1919, Mr. Desjardins says: "With reference to the development of thrift as one of the effects of the World War, I can assure you that the movement has greatly increased, so much so that since 1916 the total amount deposited in our credit unions has more than doubled, although the number of credit unions has not materially increased during that time."

who were formerly members of credit unions to pay off their loans and thereby were automatically released from membership. This is likely to be the reason for the status of credit unions among farmers August 31, 1919, as reported by the United States Department of Agriculture, which is summarized as follows:

> According to the latest report of the Jewish Agricultural and Industrial Aid Society, several of the rural credit unions in New York have been obliged to wind up their affairs. In place of the eight credit unions among farmers reported in 1916, only three now exist in that state, and no mention is made regarding the present status of the credit unions among Jewish farmers in the states of Connecticut and Massachusetts. On the other hand the report from the superintendent of rural credit unions in North Carolina shows that they then numbered 28, with a total membership of 980, and with outstanding loans aggregating $38,164. This would seem to indicate that North Carolina is the only state where any considerable progress has been made in the development of credit unions among farmers.

Summing up the situation as to both kinds of credit unions, they are known to be excellent local savings banks, stimulating thrift, bringing out hoarded money, and conferring on local communities the benefits of properly and safely invested money. However small a village or a farming community may be, it can organize a credit union, give to its inhabitants the benefits of banking, and extend the practice of thrift to every home in the locality. Such a credit union borrows from its members by accepting savings deposits and lends to other members for productive purposes. The fundamental principle is that thrift precedes savings and credit. The general tendency of these simple institutions is to develop individual capacity for a higher personal and public life. There is every reason, therefore, for encouraging the organization of credit unions in every well-defined community in the United States.

Federal Coöperative Farm Mortgage Credit

The last type of credit institution of a coöperative character to be described forms a very important feature of the federal farm loan system. This new method of making farm mortgage loans includes both individualist and coöperative features. Both have materially aided in improving farm mortgage credit conditions and have a very important relation to our national welfare. In conformity to my topic, however, I shall confine myself more particularly to presenting facts and figures on coöperative farm mortgage credit.[5]

The Federal Farm Loan Act went into effect on July 17, 1916, the day it was signed by President Wilson. The primary object of the law was to provide capital for agricultural development, the money to be loaned to farmers for productive purposes at a low rate of interest. Only first mortgage loans could be made on farms or farm lands, and two kinds of land banks were authorized to make these loans. One kind is known as *Federal Land Banks,* which make loans to farmers through "agents" or through national farm loan associations, a coöperative organization; the other is known as *Joint Stock Land Banks* which are operated by private capital for lending money to individual farmers.

[5] For an extended discussion of the relation of rural credits to national welfare, see Chapters XI–XIII, inclusive, of the author's recent work on *The Place of Agriculture in Reconstruction.*

Twelve Federal Land Banks were organized largely by government capital, the amount subscribed by the government being $8,891,270 out of the minimum of $9,000,000 authorized. The balance of the capital was subscribed by private individuals. The aid furnished by the government in establishing this coöperative system consists in supplying the capital *without interest.* This capital, however, is to be repaid and part of it has already been paid back by the Federal Land Banks.

National farm loan associations may be organized in any locality with not less than ten members whose subscriptions for loans cannot be less than $20,000. Loans are made at 5½ per cent interest, range from $100 to $10,000, and on the amortization plan of repayment. The associations are chartered by the Federal Farm Loan Board.

The primary coöperative feature is community organization for borrowing on land security, but there is not unlimited land liability. Individual mortgages are given for the payments on which each borrower alone is responsible. The coöperative liability lies in the subscription to stock in the association equaling 5 per cent of each loan which, however, becomes an investment and receives dividends from the Federal Land Banks. The money subscribed for stock in the association by the borrowers is resubscribed by the association in stock of the Federal Land Bank, the stock being held by the bank as additional security for the loans made through the associations. On September 30, 1919, the capital of the twelve Federal Land Banks aggregated $21,387,689, of which amount $13,032,860 was owned by the national farm loan associations.

The first loans were made on March 27, 1917, so that on September 30, 1919, the system had been in active operation practically two and one half years. The rapid growth of this coöperative plan of farm mortgage credit may be realized by a study of the following table which gives by states the number of associations chartered, number of loans granted, and the total amount of loans:

The coöperative feature of the federal farm loan system was originally designed not only to aid farmers to procure better credit facilities, but to encourage thrift among all classes of the rural population by furnishing a savings-bank institution in the form of a national farm loan association. This feature, if carried out and developed, might well serve as a nucleus for the organization of a rural credit union for making short-time personal loans to farmers. I present this as a new suggestion in connection with the thrift campaign and which may serve a very useful purpose in our rural social economy.

Under the law national farm loan associations may receive savings deposits from both members and nonmembers for the purchase of farm loan bonds.[6] Anyone who may have a few dollars saved may start a savings account with an association for this purpose. A certificate is granted which states the amount of money so deposited, and the savings may bear interest for one year as high as 4 per cent. These deposits are sent to the Federal Land Bank of the district for investment in bonds or first mortgages.

[6] See Federal Farm Loan Act, Sec. 11, subd. 4.

NUMBER OF NATIONAL FARM LOAN ASSOCIATIONS CHARTERED, TOGETHER WITH THE NUMBER AND TOTAL AMOUNT OF LOANS MADE IN EACH STATE FROM THE ORGANIZATION OF THE FEDERAL FARM LOAN SYSTEM TO SEPTEMBER 30, 1919

District and State	Number of national farm loan associations chartered	Number of loans made	Total amount loaned
District No. 1:			
Maine	16	511	$1,062,550
New Hampshire	6	147	312,900
Vermont	11	306	785,500
Massachusetts	17	591	1,488,605
Rhode Island	2	50	118,400
Connecticut	15	390	1,201,600
New York	42	1,351	4,142,740
New Jersey	17	240	801,250
District No. 2:			
Pennsylvania	45	864	2,262,900
Virginia	75	2,392	6,341,850
West Virginia	24	627	1,137,650
Maryland	14	204	634,700
Delaware	1	12	24,500
District No. 3:			
North Carolina	128	2,610	4,635,550
South Carolina	100	1,631	4,387,090
Georgia	65	945	2,454,285
Florida	68	1,371	2,414,120
District No. 4:			
Tennessee	112	1,966	4,881,500
Kentucky	81	1,378	3,458,700
Indiana	90	2,361	7,913,300
Ohio	35	527	1,706,400
District No. 5:			
Alabama	107	3,413	5,752,445
Louisiana	68	2,589	4,180,490
Mississippi	141	6,493	8,259,570
District No. 6:			
Illinois	112	1,711	6,622,835
Missouri	134	2,609	7,006,900
Arkansas	137	4,757	7,266,205
District No. 7:			
North Dakota	169	5,119	15,339,300
Minnesota	144	3,117	9,318,200
Wisconsin	86	1,797	4,093,400
Michigan	117	2,699	4,855,000
District No. 8:			
Iowa	134	2,475	17,410,250
Nebraska	125	2,514	10,506,990
South Dakota	79	1,615	6,500,950
Wyoming	22	443	972,100
District No. 9:			
Kansas	129	3,082	10,771,500
Oklahoma	119	2,587	5,099,100
Colorado	130	2,395	4,591,000
New Mexico	81	1,869	2,850,200
District No. 10:			
Texas	320	10,212	28,666,561
District No. 11:			
California	113	2,869	9,315,500
Utah	59	1,407	3,973,800
Nevada	3	38	172,600
Arizona	9	232	603,500
District No. 12:			
Idaho	75	2,412	6,789,295
Montana	132	4,058	9,949,640
Oregon	91	3,018	8,715,180
Washington	153	4,408	9,426,745
Total	3,953	100,412	$261,175,346

The object of restricting the savings-bank interest to one year is to encourage the exchange of certificates into farm loan bonds.

Under a recent amendment to the Farm Loan Act which has passed the House of Representatives bonds for small investors are issued at $20, $40 and $100; for large investors at $500, $1,000, or larger denominations. When the money deposited with an association is sent to the Land Bank, it is invested for the benefit of the holder of the association certificate in first mortgages on farms, and such holder may receive farm loan bonds in exchange for association certificates whenever presented in an amount sufficient to buy a bond. These bonds make a safe investment for small savings as they draw interest at $4\frac{1}{2}$ per cent.

Under the conservative plan of land appraisal and granting of a loan up to 50 per cent of the value of the land for agricultural productive purposes,—as well as the careful government supervision over loans, the associations, and the Land Banks,—no better security exists in the world than farm loan bonds. And this will hold true no matter if the present tax-exempt feature which now exists under the law should be removed from these bonds as has been proposed. Consequently, depositors, borrowers and investors all benefit under this system. This particular feature of farm loan associations receiving deposits, notwithstanding the fact that it has not yet developed to any extent, could be made to serve a very useful purpose by encouraging thrift among all classes of our rural population and by developing a more general spirit of coöperation which could express itself in the form of rural credit unions organized in every county throughout the length and breadth of our land.

Even as it is today, with its farm mortgage coöperative feature predominant, the results of the federal farm loan system have been perfectly wonderful in encouraging agriculture, promoting thrift, and extending credit. It stands as the greatest coöperative farm mortgage credit system in existence—a monument of lasting merit to the great industry of agriculture in our own country, the greatest credit nation in the world.